

## Memorandum

ECC Agenda Item III.  
May 18, 2011

To : ECC Members

Date : May 5, 2011

Telephone : (916) 561-1700

Facsimile : (916) 263-3675

From : Gary McBride, ECC Member  
Robert Yetman, ECC Member

Subject : Report of the Subcommittee's April 14, 2011 Meeting and Proposal for the 10 Units of Ethics Study Required for CPA Licensure Beginning January 1, 2014

At the last Ethics Curriculum Committee (ECC) meeting on April 6, 2011, the subcommittee presented its proposal on the guidelines for the 10 units of ethics study required for CPA licensure beginning January 1, 2014. The proposal consisted of a three-part recommendation as follows:

- **Three semester or four quarter units in an upper division course or courses solely devoted to accounting ethics, accounting fraud, or accountants' professional responsibilities.**
- **No more than seven semester units in a combination of either Un-Capped or Capped courses.**
- **No more than one semester unit for courses devoted solely to financial statement auditing.**

As a whole, it appeared that most members agreed with the general framework of the proposal, with members and stakeholders providing valuable comments and feedback. The most significant comments focused on the mandated accounting ethics course and the Capped courses taken from the five specified disciplines. Based on the comments received from members and stakeholders, the subcommittee was asked to meet again with staff to further discuss the proposal.

The subcommittee and staff met on April 14, 2011. At the meeting the subcommittee took the opportunity to review all facets of the proposal. The subcommittee's second iteration of the proposal is provided in **Attachment #1**. For each part of the revised proposal (now divided into four parts), the subcommittee has summarized some of the discussions from the prior ECC meeting on a given part, and offered rationale for the proposed revisions.

## **Subcommittee Report and Proposal for the Ethics Study Guidelines**

### **Page 2 of 6**

#### **Mandated Accounting Ethics**

At the April 2011 meeting considerable discussion occurred regarding the recommendation of mandated accounting ethics. As noted previously, the subcommittee proposed requiring completion of four quarter units or three semester units in a course or courses solely devoted to accounting ethics, accounting fraud, or accountants' professional responsibilities. Additionally, the subcommittee proposed that this requirement for mandated accounting ethics begin January 1, 2016.

During deliberations members and various stakeholders discussed the following in relation to the mandated accounting ethics:

- Should courses in accounting fraud meet a mandated accounting ethics requirement?
- Expanding the requirement to include business ethics.
- The proposed phase-in date of January 1, 2016 and how the subcommittee came to selecting this date.

Some of members' concerns regarding allowing courses in accounting fraud to count toward mandated accounting ethics centered on the fact that often students' exposures in these classes focused on procedures in identifying fraud as opposed to ethics. When the subcommittee further studied these courses, it too came to the same conclusion that accounting fraud courses, more often than not, deal with providing students with information for detecting fraud and less about ethics.

The subcommittee proposed mandating specified units in accounting ethics as a way of ensuring applicants for CPA licensure receive dedicated exposure to ethical issues confronted by accountants in public practice. Although the ability to detect fraud is important, the subcommittee did not intend for procedural courses in detection of fraud to count toward these all-important mandated units. As such, as part of the revised proposal, the subcommittee removed courses in accounting fraud from meeting the mandated accounting ethics. However, any fraud courses, including those in accounting fraud, will continue to count toward the seven allowable units in the area of Un-Capped courses.

Considerable discussions also transpired on possibly including courses in business ethics to count toward the mandated accounting ethics requirement. Certain members and stakeholders noted business ethics courses provide a general framework on how business is conducted in an ethical manner. As noted by

## Subcommittee Report and Proposal for the Ethics Study Guidelines

### Page 3 of 6

members during the meeting, and duly noted during the subcommittee's recent review of these courses, many business ethics courses devote considerable time to non-business or accounting ethics topics, such as workplace violence and sexual harassment prevention.

The subcommittee strongly believes that the Legislature sent a message when passing Senate Bill (SB) 819 – aspiring California CPAs need increased *accounting ethics*. This is evidenced by how the Legislature defined what the minimum academic work for ethics study must include, “a foundation for ethical reasoning and the core values of integrity, objectivity, and independence consistent with ... the International Federation of Accountants Code of Ethics, and the American Institute of Certified Public Accountants Code of Professional Conduct.” This definition places a heavy emphasis on standards of the accounting profession and not the business community at large. As such, the subcommittee's revised proposal does not include allowing business ethics courses to fulfill the mandated accounting ethics requirement.

That said, the ECC decided when evaluating the initial subcommittee proposal to remove the word “solely” from the requirement since this appeared overly restrictive. Colleges/universities may offer high-quality courses devoted to accounting ethics, while also covering other important topics, *i.e.* regulations or business ethics. To that end, with the removal of the word “solely,” colleges/universities could offer a hybrid course on accounting and business ethics and still meet the requirement.

Finally, as part of the mandated accounting ethics area of the initial proposal, members inquired how the subcommittee came to the initial phase-in date of January 1, 2016 to require applicants to demonstrate completion of the mandated accounting ethics requirement. When the subcommittee initially discussed the possible phase in of this requirement, it recognized that colleges/universities may not offer courses devoted to accounting ethics. To minimize the impact on students at these institutions, the subcommittee believed that two years represented a reasonable amount of time to develop the course for students to complete.

Upon further examination and understanding of the timeframes of when the guidelines for the 10 units of ethics study will become effective, the subcommittee recommends as part of the revised proposal that the original date of January 1, 2016 be pushed back a year to January 1, 2017. According to staff, based on the present timeline for the rulemaking activities to define the 10 units of ethics study, in all likelihood, the regulations will be approved around the first of the year in 2013. With this date in mind, the subcommittee believes schools will have sufficient time to develop a course, obtain all required college/university approval, hire staff, and

## **Subcommittee Report and Proposal for the Ethics Study Guidelines**

### **Page 4 of 6**

offer courses in accounting ethics so that applicants may complete them by January 1, 2017.

#### **Un-Capped Courses**

This area of the proposal did not, to the subcommittee's recollection (or staff), receive any questions for the subcommittee to further clarify or review. However, when the subcommittee reconvened, it did take the opportunity to look at the list of courses identified under the Un-Capped area. During its deliberations the subcommittee decided to add one additional course to the previously-provided list – Legal Environment of Business.

This course title is often synonymous with the course title Business Law, and colleges/universities use this course title rather than the more common course title Business Law. Since this area of the proposed ethics study relies on course titles, and CBA staff will use course titles to apply credit for completion of the applicable units, the subcommittee desired to ensure this course would clearly qualify.

#### **Capped Courses**

Along with the discussion on the mandated accounting ethics, the other area of the proposal that received considerable discussion was the Capped courses. As members will recall, the initial proposal allowed for applicants to complete courses in various disciplines (Philosophy; Religion; Ethnic, Cultural, and Diversity Studies; Sociology; and Psychology) to count for up to seven semester units in ethics study, with no more than three semester units to apply from any one discipline. In considering this area of the proposal, the subcommittee believed given that only three-semester units from one discipline could be applied, applicants would receive credit for the introductory course that lays the foundation for the general objective, goals, and principles these disciplines seek to instill in students.

It was duly noted by members that neither the proposal, nor the language that the subcommittee requested staff prepare, made mention that courses completed in the identified disciplines be an introductory course. As such, when the subcommittee further considered this area, it set about to determine how best to qualify this area so as to more closely align it with the subcommittee's intent.

To that end, as noted in the revised proposal, the subcommittee recommends that the courses taken in these disciplines contain one of the below words or terms in

## **Subcommittee Report and Proposal for the Ethics Study Guidelines**

### **Page 5 of 6**

the course title or that the sole name in the course title is the name of the discipline (e.g. SOC 101 – Sociology).

- Introductory
- Introduction
- Principles
- Survey of
- General
- Fundamentals of
- Foundation of

The second issue brought up during discussions on this area of the proposal dealt with the breadth of disciplines recommended by the subcommittee. As noted previously, the disciplines include Philosophy; Religion; Sociology; Ethnic, Cultural, and Diversity Studies; and Psychology.

Some members and various stakeholders believed that the previously-provided list may be too broad – especially as it related to Religion, Sociology, and Psychology. The subcommittee continues to believe that these, along with the other disciplines, do offer students a broad framework for developing ethical reasoning. At their core, these disciplines focus on human nature and motivations, and these underlying concepts will only help to further serve accounting professionals. As such, the subcommittee continues to recommend all of the previously specified disciplines as part of its revised proposal.

Additionally, the subcommittee, as part of its revised proposal, added three disciplines to the original five – Theology, Economics, and Political Science. The subcommittee's rationale for including Theology is simply as an accompaniment to Religion. These two terms for the same field of study are often interchangeable, and thus the subcommittee believed it only further strengthened the proposal.

The subcommittee believes Economics – especially Introductory or Microeconomics – deals with how individuals make economic decisions. Since the bulk of accounting fraud and irregularities involve individuals seeking to achieve economic gains, it is important to understand how economic incentives can influence individual decisions. With Political Science, the subcommittee believes introductory Political Science courses provide a broad framework and foundation for ethical reasoning with respect to the relationship of good governance to business, institutions, and society at large.

### **Financial Statement Auditing Courses**

To the subcommittee's knowledge, it did not receive comment or feedback regarding the specifics for this proposal. Discussion did occur when deliberating

## Subcommittee Report and Proposal for the Ethics Study Guidelines

### Page 6 of 6

the mandated accounting ethics area of the proposal to remove courses in accounting fraud and expand this area to include those courses. However, when removing accounting fraud courses from the mandated accounting ethics requirement, the course easily fell under the Un-Capped area since it has the word “fraud” in the course title.

The subcommittee believes the proposal put forth in **Attachment #1** meets the Legislature’s intent related to ethics study for future CPAs when passing SB 819. It also believes the proposal hits on two important points:

1. Providing the needed flexibility to applicants and colleges/universities for allowing applicants to meet the 10 units of ethics study
2. Providing clear direction to applicants regarding the requirements and feasible recommendations that the CBA can implement.

To illustrate this point, the subcommittee requested that staff supply some initial examples of how applicants can use the present proposal to fulfill the 10 units of ethics study (**Attachment #2**). As supported by **Attachment #2**<sup>1</sup>, applicants can complete the 10 units with an Accounting Ethics Emphasis (All Accounting courses); Accounting and Business Ethics Emphasis (All Un-capped courses); Accounting, Business, and General Ethics Emphasis (Combination of Un-Capped and Capped courses); or Accounting and General Ethics Emphasis (All Capped courses).

As members are aware this is the last ECC meeting prior to the joint ECC/Accounting Education Committee meeting being held June 7, 2011. At the stakeholder meeting the CBA intends on providing the proposal of each committee where comments/feedback on the proposal will be solicited. In order to provide a finalized proposal for staff to include as part of this meeting, the subcommittee requests that members take formal action to vote on the proposal, including any necessary amendments, for the full 10 units of ethics study provided in **Attachment #1**. Staff have again provided an example of the resulting draft regulatory language in **Attachment #3**.

---

<sup>1</sup> **Attachment #2** is being provided for informational purposes only. The exercise undertaken by staff looks solely at the present proposal and does not take into consideration any variances that this committee may make at the upcoming May 2011 meeting.



**DEPARTMENT OF CONSUMER AFFAIRS**  
 CALIFORNIA BOARD OF ACCOUNTANCY  
 2000 EVERGREEN STREET, SUITE 250  
 SACRAMENTO, CA 95815-3832  
 TELEPHONE: (916) 263-3680  
 FACSIMILE: (916) 263-3675  
 WEB ADDRESS: <http://www.cba.ca.gov>



**ATTACHMENT #1**

## **ECC SUBCOMMITTEE PROPOSAL FOR THE ETHICS STUDY GUIDELINES**

### **RECOMMENDATION #1 – MANDATED ACCOUNTING ETHICS**

- Require applicants complete a minimum of four quarter units or three semester units in an upper division or higher course or courses devoted to accounting ethics or accountants' professional responsibilities.
- Applicants must meet this requirement beginning January 1, 2017. Until that time applicants can meet this requirement using any Un-Capped Courses.

### **RECOMMENDATION #2 – UN-CAPPED COURSES**

- Applicants can receive credit for up to seven semester units from the following courses:

Business Law	Corporate Governance
Ethics, Morals, or Fraud	Organizational Behavior
Human Resources Management	Management of Organizations
Business Government & Society	Business Leadership
Legal Environment and Business	Professional Responsibilities (non-Accounting)

### **RECOMMENDATION #3 – CAPPED COURSES**

- Applicants can receive credit for up to seven semester units from courses taken in the following disciplines:

Philosophy	Cultural, Ethnic, or Diversity Studies
Sociology	Religion
Psychology	Theology
Economics	Political Science

- No more than three semester units may be applied from any one discipline.
- The course title must contain one of the below words or terms, or the sole name in the course title is the name of the discipline.

Introductory	General
Introduction	Fundamentals of
Principles of	Foundation of
Survey of	

### **RECOMMENDATION #4 – FINANCIAL STATEMENT AUDITING COURSE**

- Applicants can receive credit of one semester unit for a course devoted solely to financial statement auditing.



**DEPARTMENT OF CONSUMER AFFAIRS**  
 CALIFORNIA BOARD OF ACCOUNTANCY  
 2000 EVERGREEN STREET, SUITE 250  
 SACRAMENTO, CA 95815-3832  
 TELEPHONE: (916) 263-3680  
 FACSIMILE: (916) 263-3675  
 WEB ADDRESS: <http://www.cba.ca.gov>

**Attachment #2**

## EXAMPLES OF COURSE COMBINATIONS THAT SATISFY THE PROPOSED ETHICS STUDY GUIDELINES

The following examples of current course combinations satisfy the three semester unit or four quarter unit accounting ethics requirement, which is not mandatory until January 1, 2017.

### **EXAMPLE #1 – ACCOUNTING ETHICS EMPHASIS (ALL ACCOUNTING COURSES)**

EXAMPLE – UNIVERSITY OF SAN DIEGO (SEMESTER UNIT INSTITUTION)

COURSE DESIGNATOR	COURSE TITLE	UNITS
MACC 501*	Communications and Ethics for Professionals	3
MACC 503*	Negotiations: Strategies, Practice, and Ethics	3
MACC 532*	Fraud Examination and Forensic Accounting	3
ACCT 408	Auditing	3/1^

### **EXAMPLE #2 – ACCOUNTING AND BUSINESS ETHICS EMPHASIS (ALL UNCAPPED COURSES)**

EXAMPLE – UNIVERSITY OF PHOENIX (SEMESTER UNIT INSTITUTION)

COURSE DESIGNATOR	COURSE TITLE	UNITS
ACCT 375	Accounting Ethics and Professional Relations	3
MGT 216	Organizational Ethics and Social Responsibilities	3
HRM 300	Introduction to Human Resource Management	3
ACC 490	Auditing	3/1^

\* Indicates courses at a master's degree level.

^ Indicates only one semester unit used to qualify for the ethics study requirement.



**EXAMPLE #3 – ACCOUNTING, BUSINESS, AND GENERAL ETHICS  
(COMBINATION OF UNCAPPED AND CAPPED COURSES)**

EXAMPLE – CALIFORNIA STATE UNIVERSITY, EAST BAY (QUARTER UNIT INSTITUTION)

COURSE DESIGNATOR	COURSE TITLE	UNITS
ACCT 4911	Ethics, Regulation and Financial Fraud	4
ACCT 2701	Legal Environment and Business	4
MGMT 3610	Human Resources Management	4
ES 1001	Introduction to Ethnic Studies	4

**EXAMPLE #4 – ACCOUNTING AND GENERAL ETHICS EMPHASIS  
(ALL CAPPED COURSES)**

EXAMPLE – CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO (QUARTER UNIT INSTITUTION)  
COLLEGE OF THE DESERT (SEMESTER UNIT INSTITUTION)

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

COURSE DESIGNATOR	COURSE TITLE	UNITS
ACCT 444	Accounting Law, Ethics and Institutions	4
PSYC 100	Introduction to Psychology	4

COLLEGE OF THE DESERT

COURSE DESIGNATOR	COURSE TITLE	UNITS
SOC 3	Fundamentals of Sociology	3
PHIL 6	Introduction to Philosophy	3

\* Indicates courses at a master's degree level.

^ Indicates only one semester unit used to qualify for the ethics study requirement.



**DEPARTMENT OF CONSUMER AFFAIRS**  
CALIFORNIA BOARD OF ACCOUNTANCY  
2000 EVERGREEN STREET, SUITE 250  
SACRAMENTO, CA 95815-3832  
TELEPHONE: (916) 263-3680  
FACSIMILE: (916) 263-3675  
WEB ADDRESS: <http://www.cba.ca.gov>



**Attachment #3**

**DRAFT REGULATORY LANGUAGE  
FOR THE 10 UNITS OF ETHICS STUDY**

**Section \_\_\_\_ Education Required Under Business and Professions Code Section 5093 to Apply for Certified Public Accountant License. (Effective January 1, 2014)**

(a) An applicant applying for CPA licensure after December 31, 2013, in addition to meeting the 24 semester units of accounting described in Section 9.2(b) and the 24 semester units of business-related subjects described in Section 9.2(c), shall, to the satisfaction of the Board, provide documentation to the completion of an additional 20 semester units of accounting study as described in Section \_\_\_\_ and 10 semester units of ethics study as described in Section \_\_\_\_.

(b) Satisfactory evidence as to educational qualifications shall take the form of certified transcripts of the applicant's college record, mailed directly to the Board from the educational institution; however, in unusual circumstances the Board may accept such other evidence as it deems appropriate and reasonably conclusive. For foreign education, in addition to certified transcripts of the applicant's college record, satisfactory evidence usually takes the form of an evaluation of educational credentials by a credentials evaluation service approved by the Board pursuant to Section 9.1.

(c) For purposes of Section \_\_\_\_, \_\_\_\_, and \_\_\_\_, one quarter unit is equivalent to two-thirds of one semester unit.

**Section \_\_\_\_ Ethics Study Required Under Business and Professions Code Section 5094. (Effective January 1, 2014)**

(a) In order for an applicant to satisfy the 10 semester units of ethics study, he/she must meet the requirements described below.

(b) Completion of a minimum of three semester units or four quarter units in a course or courses at an upper division level or higher devoted to accounting ethics or accountants' professional responsibilities.

(1) Subsection (b) must be met beginning January 1, 2017. Until that time, applicants can meet subsection (b) by completing courses in subsection (c)(1).

(c) The remaining semester units may be completed in any of the courses in subsection (c)(1) or disciplines in subsection (c)(2).

(1) Courses in the following: business law; legal environment of business; corporate governance; ethics, morals, or fraud; organizational behavior; human resources management; management of organizations; business, government and society; business leadership; and non-accounting courses specific to professional responsibilities.

(2) Courses in the following disciplines: Philosophy; Religion; Theology; Sociology; Psychology; Cultural, Ethnic, or Diversity Studies; Economics; and Political Science. Courses in these disciplines must include the following words or term in the course title or the sole name in the course title is the name of the discipline: Introduction, Introductory, General, Fundamentals of, Principles, Foundation of, or Survey of. No more than three semester units can be applied from one single discipline, except those courses expressly identified in subsection (c)(1).

(3) Applicants may obtain credit for a maximum of one semester unit of ethics study for completion of a course specific to financial statement audits.